



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada



Serving
GOVERNMENT,
Serving
CANADIANS.

Quarterly Financial Report

For the quarter ended December 31, 2011

1. Introduction

This Quarterly Financial Report should be read in conjunction with the Main Estimates and Supplementary Estimates A and B. It has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

Public Works and Government Services Canada provides common, central and shared services to other government departments, thereby enabling them to deliver programs and services to Canadians. As the federal government's primary common service provider, PWGSC acts as principal banker, accountant, central purchasing agent, translation authority and real property manager to all government departments, boards and agencies.

Further details on PWGSC's authority, mandate and program activities may be found in the Report on Plans and Priorities and the Main Estimates.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified-cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Authorities compares the Department's spending authorities granted by Parliament to those used by the Department. Information in the Statement of Authorities is consistent with that in the Main Estimates and Supplementary Estimates A and B.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

The Department uses the full accrual method of accounting to prepare and present its annual Consolidated Departmental Financial Statements that are published in the Departmental Performance Report. However, the spending authorities voted by Parliament remain on an expenditure basis of accounting.

1.3 PWGSC's Financial Structure

As a common service provider, PWGSC uses a variety of funding mechanisms to achieve its mandate. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues, Capital Expenditures and Contributions, while the statutory authorities are mainly comprised of Revolving Funds, the Employee Benefits Plan and Payments in Lieu of Taxes. The non-budgetary authorities consist primarily of the Seized Property Working Capital Account.

PWGSC's complex financial structure may result in significant timing differences on a quarterly basis which are resolved by year end. These are summarized as follows:

- For the most part, PWGSC delivers its services on a cost recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and Vote-Netted Revenue programs. These programs and organizations are mainly designed to provide services to other government departments, and are expected to recover the full cost of their operations through their revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or services rendered.
- In addition, PWGSC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.
- Payments in Lieu of Taxes issued by PWGSC on behalf of other participating federal departments are recovered from those departments, and are recorded as Grants in the Public Accounts of Canada. The timing difference between the time a Payment in Lieu of Taxes is made and the time it is recovered from another department is funded through a statutory vote.
- PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is performed through the non-budgetary Seized Property Working Capital Account. Charged to this account are expenditures and advances made to maintain and manage any seized or restrained property as well as other properties subject to a management order or forfeited to Her Majesty. PWGSC recovers its costs when forfeiture and disposition have occurred.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This section highlights the significant items that contributed to the overall decrease in resources available for the year and the overall decrease in actual year-to-date expenditures as of December 31, 2011.

2.1 Significant changes to authorities (*Net decrease of \$242.3 million*)

As reflected in the *Statement of Authorities*, the Department's total authorities available for use in fiscal year 2011-12, as of December 31, 2011, are \$2,925 million, compared to \$3,168 million at December 31, 2010. Of the \$242.3 million overall decrease (or 8%), \$232.2 million was explained in the second *Quarterly Financial Report of 2011-2012*.

It should be noted that no projects were submitted for approval under *Supplementary Estimates A* due to the prorogation of Parliament for the May 2011 general election. Funding approval for certain projects was received later via *Supplementary Estimates B*, resulting in certain delays in procurement. Consequently, it is expected that the Department will seek authorization to carry forward a portion of unused authorities to next fiscal year.

The additional and updated items since the second quarter are highlighted and explained below:

YEAR-OVER-YEAR CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE (as at December 31st)

(in millions of dollars)	VARIANCES IN AUTHORITIES AVAILABLE FOR USE					
	Operating	Capital	Contribution	Revolving Fund - Net Changes	Other Budgetary Statutory	TOTAL VARIANCES
Accelerated Infrastructure Program	(111.5)	(116.3)	-	-	-	(227.8)
Inflation and Non-Discretionary Pressures	(61.6)	-	-	-	-	(61.6)
G20 Summit in Toronto	(29.2)	-	-	-	-	(29.2)
Engineering Assets Program	-	(18.0)	-	-	-	(18.0)
Payment in Lieu of Taxes	-	-	-	-	(11.2)	(11.2)
Completion of the Alexandra Bridge Project	-	(11.0)	-	-	-	(11.0)
Miscellaneous Transfers (internal reallocation of resources and OGD transfers)	(63.8)	60.6	-	-	-	(3.2)
Ratified Changes to Severance Pay Entitlements	41.1	-	-	10.8	-	51.9
Revolving Fund Net Expenditures	-	-	-	14.6	-	14.6
Canadian Innovation Commercialization Program	17.3	-	-	-	-	17.3
Employee Benefits Plan	-	-	-	-	12.7	12.7
Pay Modernization Project	-	8.9	-	-	-	8.9
Long Term Vision and Plan for the Parliamentary Precinct	(37.4)	43.7	-	-	-	6.3
Canadian Language Sector Enhancement Program *	(4.9)	-	5.2	-	-	0.3
Other	(2.2)	7.7	-	-	2.2	7.7
CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE	(252.2)	(24.4)	5.2	25.4	3.7	(242.3)

* Contribution Expenditures (Vote 10) created in 2011-12 which consist of contributions to the Canadian Language Sector Enhancement Program, was previously reported under Operating Expenditures (Vote 1). An amount of \$4.9 million was included under Operating Expenditures in 2010-11 vs. \$5.2 million under Contribution Expenditures in 2011-12.

YEAR-OVER-YEAR CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE (as at December 31st) – *Continued*

END OF THE ACCELERATED INFRASTRUCTURE PROGRAM (AIP)

Decrease of \$227.8 million: The AIP is PWGSC's program that supported the government's Budget 2009 Economic Action Plan to stimulate economic growth. It allowed the Department to advance on key infrastructure projects across the country and make a positive contribution to the Canadian economy. The program ended in fiscal year 2010-11.

INFLATION AND NON-DISCRETIONARY PRESSURES

Decrease of \$61.6 million: This funding is used to cover increases in the cost of operating and maintaining buildings under the custody of PWGSC (i.e. utility, rental, fit-up work and temporary accommodation during renovations). Budgets are adjusted several times a year to meet non-discretionary cash requirements and to align to market prices. Additional funding related to this item is currently pending approval.

RATIFIED CHANGES TO SEVERANCE PAY ENTITLEMENTS

Increase of \$51.9 million: All collective agreements negotiated since the fall of 2010 have included the elimination of severance accumulation and have provided a one-time option for employees to cash out some of their accumulated severance pay. Severance payments are generally funded by Treasury Board via a central allowance.

REVOLVING FUND NET EXPENDITURES

Net Increase of \$14.6 million: Changes to revolving fund business volumes result from the end of the Accelerated Infrastructure Program, partially offset by an increase related to ongoing operations and various projects, mainly with Canada Border Services Agency and Correctional Services Canada.

CANADIAN INNOVATION COMMERCIALIZATION PROGRAM (CICP)

Increase of \$17.3 million: The CICP aims to support Small and Medium Enterprises by assisting them in moving their pre-commercial innovations into the marketplace.

PAY MODERNIZATION PROJECT

Increase of \$8.9 million: The goal of this initiative, which began in 2009-10 and ends in 2015-16, is to replace the Government of Canada's 40-year-old pay system for the benefit of all departments.

LONG TERM VISION AND PLAN FOR PARLIAMENTARY PRECINCT (LTVP)

Increase of \$6.3 million: The LTVP provides a long-term approach for rehabilitating the heritage buildings, meeting Parliamentary accommodation requirements, and providing a secure and welcoming environment for parliamentarians, staff and visitors.

2.2 Significant changes to Net Expenditures (*Net decrease of \$238.6 million*)

As at December 31, 2011, the Department's trend in authorities used and expended, as presented in *Departmental Budgetary Expenditures by Standard Object*, is consistent with the previous year although a small decrease in the spending rate is noted in the third quarter.

Of annual planned expenditures, 22% was expended in the third quarter of 2011-12, compared to 26% for the same quarter of 2010-11. Furthermore, year-to-date expenditures for 2011-12 represent 69% of annual planned expenditures, compared to 71% in 2010-11.

Of the \$238.6 million decrease in Total Net Budgetary Expenditures used, the most significant variances are found in the following categories:

- Personnel – Increase of \$95.2 million;
- Professional and Special Services – Decrease of \$137.4 million;
- Repair and Maintenance – Decrease of \$162.0 million; and,
- Acquisition of Land, Buildings and Works – Decrease of \$97.4 million.

The variances are mainly attributable to:

- Ratified changes to severance pay entitlements;
- The end of the *Accelerated Infrastructure Program*; and,
- The purchase of the former Nortel Campus in Ottawa in December 2010.

It is worth mentioning that the distribution of planned expenditures by standard object may not align with the distribution of year-to-date actual expenditures as the planned expenditures are based on historical spending trends. In order to better support business priorities during the fiscal year, the Department realigns its actual expenditures between standard objects.

3. Risks and Uncertainties

Based on its most recent risk assessment exercise, PWGSC has identified one risk as having a potential financial impact, namely increasing fiscal restraint. The impact and mitigation strategies are discussed below.

PWGSC's implementation of the *Strategic Review (Budget 2011)* and the *Operating Budget Freeze (Budget 2010)* results in both risks and opportunities as PWGSC explores new ways of delivering services. In 2011-12, the impact of these initiatives has mainly resulted in:

- Savings of \$35.6 million from increased efficiency and effectiveness and by focusing on our core roles in serving Canadians; and
- A freeze in operating budgets at their 2010-11 levels that included absorbing \$11 million in regular salary increases.

In addition to its challenge in managing the impact of these fiscal restraint measures on its own administrative cost reductions, PWGSC is faced with the financial and operational uncertainty that results from its role as a common service provider to federal departments and agencies. The impacts could multiply to respond to changes in the needs and level of demand from clients and the potential impact of these changes on service quality. A Client Service Strategy has been implemented across the Department in order to establish a consistent set of service values, practices and client service management tools, and to position PWGSC as an innovative and integrated common service delivery organization. The expected outcomes of the strategy will be more predictable service levels, higher levels of client satisfaction and an enhanced capacity to assess the impacts that these restraint measures will have on the demand for services and the Department's service delivery structure and processes.

A solid action plan has been developed to mitigate these risks, supported by a more robust Financial Management Framework that includes:

- clarification of accountabilities;
- implementation of a more rigorous approach to the management of revenues, expenditures, forecasting and commitment monitoring; and
- integration among investment plans, business plans and human resources strategies, and risk management.

In addition, PWGSC's financial restraints may limit the organization's ability to hire skilled resources needed to successfully achieve the transformation and realignment agendas. This may result in workload management issues and succession planning challenges. To respond to this risk, PWGSC has implemented departmental strategies to ensure the required workforce is available to deliver its mandate and manage workload issues. In addition, to increase retention of the current workforce, the Department has developed strategies to be the employer of choice, by developing PWGSC's *People Management Philosophy and our Commitments*, and by ensuring employees have the tools and knowledge required to deliver on the Department's mandate and new approaches.

Furthermore, Treasury Board's approval of PWGSC's Strategic Review allowed the Department to pursue its strategic direction. The Department developed a sound implementation plan including a communication strategy to explain the changes to management and staff as well as a comprehensive human resources plan to minimize the impact on employees. PWGSC is proactively monitoring progress to ensure the attainment of service quality objectives. Other steps to be taken include the identification of future funding pressures through consultation with senior executives.

4. Significant Changes to Operations, Personnel and Programs

Like many other departments, PWGSC has gone through a Strategic Review exercise in which program spending was reviewed to ensure that government programs and services meet the priorities of Canadians and are aligned with federal responsibilities. These changes are a reflection of our transformation as a department, and are positioning us to better focus our energy, attention and resources on core services.

The Department maintains its commitment to minimizing the impact of fiscal restraint measures such as the Strategic Review. Over the course of the year, management provided four progress updates focusing on the employees affected by the Strategic Review in 2011. At the time this report was being finalized, the Department had secured new employment for 87% (or 267) of the 307 employees affected by the Strategic

Review this year and human resources strategies continue to be developed to help all remaining affected employees find positions.

As a result of the creation of Shared Services Canada on August 4, 2011, PWGSC transferred to Shared Services Canada the control and supervision of operational domains related to email, data centers and network services, including telecommunications for voice and data. At the end of December, approximately 1,452 PWGSC positions associated with the delivery of these services were transferred to the new department. During this transition period, PWGSC's Quarterly Financial Report continues to reflect financial information related to the transferred services.

Approved by:

François Guimont, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada

February 23, 2012

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada

February 23, 2012

STATEMENT OF AUTHORITIES (UNAUDITED)

For the quarter ended December 31, 2011

	Fiscal year 2011-2012			Fiscal year 2010-2011		
	Total available for use for the year ending March 31, 2012 *	Used during the quarter ended December 31, 2011	Year to date used at quarter end	Total available for use for the year ending March 31, 2011 *	Used during the quarter ended December 31, 2010	Year to date used at quarter end
<i>(in thousands of dollars)</i>						
Vote 1 - Operating Expenditures						
Gross Operating Expenditures	3,671,560	907,580	2,590,909	3,839,706	891,765	2,551,963
Vote-Netted Revenues	(1,430,668)	(415,926)	(1,058,277)	(1,346,564)	(363,626)	(981,921)
Net Operating Expenditures	2,240,892	491,654	1,532,632	2,493,142	528,139	1,570,042
Vote 5 - Capital Expenditures	501,978	130,232	253,510	526,430	318,105	465,539
Vote 10 - Contribution Expenditures **	5,210	1,045	2,437	-	-	-
Statutory Authorities						
Revolving Fund Gross Expenditures	2,353,702	577,881	1,354,701	2,483,105	589,375	1,452,004
Revolving Fund Revenues	(2,317,942)	(572,177)	(1,254,452)	(2,472,753)	(651,612)	(1,359,705)
Revolving Fund Net Expenditures	35,760	5,704	100,249	10,352	(62,237)	92,299
Other Budgetary Statutory Expenditures	141,540	12,534	116,271	137,796	30,860	115,836
Total Budgetary Statutory Authorities	177,300	18,238	216,520	148,148	(31,377)	208,135
Total Net Budgetary Authorities	2,925,380	641,169	2,005,099	3,167,720	814,867	2,243,716
Non-Budgetary Authority						
Seized Property Working Capital Account	-	(4,100)	(11,743)	-	(4,537)	(15,334)
TOTAL AUTHORITIES ***	2,925,380	637,069	1,993,356	3,167,720	810,330	2,228,382

Net decrease of \$242.3 million

* Includes Authorities available for use and granted by Parliament at quarter-end only.

** Contribution Expenditures (Vote 10) created in 2011-12 which consist of contributions to the Canadian Language Sector Enhancement Program, was previously reported under Operating Expenditures (Vote 1). An amount of \$4.9 million was included under Operating Expenditures in 2010-11 vs. \$5.2 million under Contribution Expenditures in 2011-12.

*** Includes authorities relating to the new Shared Services Canada (Refer to Section 4-Significant Changes to Operations, Personnel and Programs).

DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (UNAUDITED)

For the quarter ended December 31, 2011

	Fiscal year 2011-2012			Fiscal year 2010-2011		
	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended December 31, 2011	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2011	Expended during the quarter ended December 31, 2010	Year to date used at quarter end
<i>(in thousands of dollars)</i>						
Expenditures						
Personnel	1,192,275	314,772	979,802	1,059,402	297,434	884,556
Transportation and Communications	228,778	55,020	150,763	309,053	53,713	144,935
Information	13,349	2,627	6,719	20,542	3,220	8,810
Professional and Special Services	1,670,203	393,599	923,227	1,602,280	456,638	1,060,582
Rentals	1,036,816	264,940	809,704	1,228,320	225,265	807,211
Repair and Maintenance	1,278,661	280,834	672,308	1,383,169	348,979	834,319
Utilities, Materials and Supplies	215,658	94,606	166,935	249,316	63,724	133,258
Acquisition of Land, Buildings and Works	253,654	89,101	183,144	318,829	240,241	280,580
Acquisition of Machinery and Equipment	116,248	13,611	26,245	119,082	16,508	34,639
Transfer Payments	44,162	(11,499)	41,389	55,100	12,891	54,942
Public Debt Charges	87	-	-	-	-	-
Other Subsidies and Payments	624,099	131,661	357,592	641,944	111,492	341,510
Total Gross Budgetary Expenditures	6,673,990	1,629,272	4,317,828	6,987,037	1,830,105	4,585,342
Less Revenues Netted Against Expenditures						
Revolving Fund Revenues	(2,317,942)	(572,177)	(1,254,452)	(2,472,753)	(651,612)	(1,359,705)
Vote-Netted Revenues	(1,430,668)	(415,926)	(1,058,277)	(1,346,564)	(363,626)	(981,921)
Total Revenues Netted Against Expenditures	(3,748,610)	(988,103)	(2,312,729)	(3,819,317)	(1,015,238)	(2,341,626)
TOTAL NET BUDGETARY EXPENDITURES	2,925,380	641,169	2,005,099	3,167,720	814,867	2,243,716

* Includes Authorities available for use and granted by Parliament at quarter-end only

Net decrease of \$238.6 million